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*REPORT OF THE
COMPTROLLER GENERAL
OF THE UNITED STATES*



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Examination Of
Financial Statements Of
Gorgas Memorial Institute
Of Tropical And Preventive
Medicine, Incorporated
Fiscal Year 1975

FOD-76-5

NOV. 24. 1975

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114867

To the Board of Directors
Gorgas Memorial Institute of Tropical
and Preventive Medicine, Incorporated

Pursuant to the act of May 7, 1928 (22 U.S.C. 273a), we examined the financial statements of the Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated--a private domestic nonstock corporation--for the fiscal year ended June 30, 1975.

Our examination included a review of the Institute's statement of assets, liabilities, and fund balances as of June 30, 1975, and the related statements of contributions, income, expenditures and transfers of operating funds, and changes in fund balances for the year then ended. We made our examination in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements (schedules 1 through 3) present fairly the assets and liabilities of the Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated, at June 30, 1975, and the contributions, income, expenditures, transfers of operating funds, and changes in fund balances for the year then ended, in conformity with generally accepted accounting principles for non-profit organizations applied on a basis consistent with that of the preceding year.

The financial statements for the prior fiscal year were audited by Touche Ross & Co.

Comptroller General
of the United States

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FINANCIAL STATEMENTS

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SCHEDULE 1

SCHEDULE 1

GORGAS MEMORIAL INSTITUTE OF
TROPICAL AND PREVENTIVE MEDICINE, INCORPORATED
COMPARATIVE STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
JUNE 30, 1975 AND 1974

A S S E T S

	<u>1975</u>	<u>1974</u>
OPERATING FUND:		
Cash in banks and on hand	\$ 249,553	\$ 189,675
Accounts receivable (Note B.1.)	128,649	131,528
Materials and supplies, at average cost (Note E)	37,106	38,506
Prepaid expenses	12,517	16,607
Deferred retirement benefits (Note B.3.)	7,238	10,857
Total Operating Fund Assets	<u>435,063</u>	<u>387,168</u>
ENDOWMENT FUND:		
Savings Account	6,270	4,554
Investments at cost--market value at 6-30-75 = \$105,203 (sch. 4)	118,900	117,820
Dividends receivable	-	35
Total Endowment Fund Assets	<u>125,170</u>	<u>122,208</u>
PLANT FUND:		
Land and building donated by Republic of Panama, at appraised value at date donated (Note C.)	126,750	126,750
Other buildings and building improvements, at cost	668,959	668,959
Laboratory and other equipment, at cost (Note B.2.)	419,077	400,374
Total Plant Fund Assets	<u>1,214,786</u>	<u>1,196,083</u>
TOTAL ASSETS	<u>\$1,775,019</u>	<u>\$1,705,459</u>

The notes on pages 8 through 12 are an integral part of this schedule.

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SCHEDULE 1

SCHEDULE 1

LIABILITIES AND FUND BALANCES

	<u>1975</u>	<u>1974</u>
LIABILITIES, OPERATING FUND:		
Accounts payable	\$ 84,423	\$ 54,533
Accrued vacation pay	55,521	70,578
Accrued retirement pay	40,308	23,052
Unearned grant/contract revenue	<u>85,843</u>	<u>65,358</u>
Total Liabilities	<u>266,095</u>	<u>213,521</u>
 FUND BALANCES (sch. 3):		
Operating fund	168,968	173,647
Endowment fund	125,170	122,208
Plant fund		
Donated by Republic of Panama	126,750	126,750
Other	<u>1,088,036</u>	<u>1,069,333</u>
Total Fund Balances	<u>1,508,924</u>	<u>1,491,938</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$1,775,019</u>	<u>\$1,705,459</u>

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GORGAS MEMORIAL INSTITUTE OF
TROPICAL AND PREVENTIVE MEDICINE, INCORPORATED

COMPARATIVE STATEMENT OF CONTRIBUTIONS, INCOME,
EXPENDITURES, AND TRANSFERS OF OPERATING FUNDS

FISCAL YEARS ENDED JUNE 30, 1975 and 1974

	<u>1975</u>	<u>1974</u>
CONTRIBUTIONS AND INCOME:		
Contributions--U.S. Government appropriations (Note D)	\$ 707,500	\$ 500,000
Research grants and contracts (Note B.1.)	1,322,464	1,239,868
Interest and miscellaneous income	<u>2,857</u>	<u>5,119</u>
Total contributions and income	<u>\$2,032,821</u>	<u>\$1,744,987</u>
OPERATING EXPENDITURES:		
Gorgas Memorial Laboratory - Panama:		
Personnel costs	\$ 460,714	\$ 465,462
Employee travel	29,006	15,290
Consultant travel and fees	23,610	7,110
Supplies	84,683	86,179
Library journals and books	8,612	10,501
Fieldwork	41,444	34,506
Publishing costs	4,274	2,916
Maintenance of plant and equipment	<u>114,886</u>	<u>113,352</u>
Total - Gorgas Memorial Laboratory	<u>1,267,229</u>	<u>1,135,516</u>
Gorgas Memorial Institute - Middle America Research Unit - Canal Zone (Notes A and E)		
Personnel costs	297,191	357,417
Employee travel	8,902	6,840
Supplies	115,175	97,555
Publishing	4,966	4,719
Maintenance of plant and equip- ment	231,040	180,394
Equipment (Notes B.2 and E)	<u>2,871</u>	<u>4,173</u>
Total - Middle America Research Institute	<u>660,145</u>	<u>651,298</u>
Gorgas Memorial Institute - Washington:		
Personnel costs	57,867	53,001
Rent	5,145	5,163
Consultant fees and travel	1,744	6,603
Miscellaneous	<u>9,124</u>	<u>7,621</u>
Total - Gorgas Memorial Institute	<u>74,880</u>	<u>72,387</u>
TOTAL OPERATING EXPENDITURES	<u>\$2,002,954</u>	<u>\$1,859,413</u>
EXCESS OF CONTRIBUTIONS AND INCOME OVER (UNDER) OPERATING EXPENDITURES	\$ 30,767	\$ 115,411
CAPITAL EXPENDITURES TRANSFERRED TO PLANT FUND (Note B.2. and sch. 3)	<u>(15,153)</u>	<u>(22,194)</u>
EXCESS OF CONTRIBUTIONS AND INCOME OVER (UNDER) OPERATING AND CAPITAL EXPENDITURES (S.E. 3)	<u>\$ 14,566</u>	<u>\$ 93,217</u>

The notes on pages 8 and 12 are an integral part of this schedule.

GORGAS MEMORIAL INSTITUTE OF
TROPICAL AND PREVENTIVE MEDICINE, INCORPORATED

COMPARATIVE STATEMENT OF CHANGES IN FUND BALANCES

FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

	Operating fund <u>1975</u>	<u>1974</u>
BALANCE AT BEGINNING OF YEAR, AS INITIALLY REPORTED	\$173,647	\$311,446
Adjustment to prior years' earnings (Note G)	-93	-
BALANCE AT BEGINNING OF YEAR, AS RESTATED	173,554	311,446
ADDITIONS AND DEDUCTIONS (-):		
Excess of contributions and income over/under operating and capital expenditures	-4,586	-137,799
Capital expenditures from operating fund for equipment and improvements	-	-
Interest, dividends, and book sales	-	-
Lister Hill fellowship expenses	-	-
Donated equipment	-	-
Laboratory equipment written off	-	-
Land returned to Republic of Panama (note C)	-	-
Write-off of the cost of study relating to proposed library project (note C)	-	-
BALANCE AT END OF YEAR (sch. 1)	<u>\$168,968</u>	<u>\$173,647</u>

The notes on pages 8 through 12 are an integral part of this schedule.

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SCHEDULE 3

SCHEDULE 3

Endowment fund		Plant fund			
		Donated by Republic of Panama		Other	
<u>1975</u>	<u>1974</u>	<u>1975</u>	<u>1974</u>	<u>1975</u>	<u>1974</u>
\$122,208	\$117,895	\$126,750	\$336,750	\$1,069,333	\$1,071,375
-	-	-	-	-	-
<u>122,208</u>	<u>117,895</u>	<u>126,750</u>	<u>336,750</u>	<u>1,069,333</u>	<u>1,071,375</u>
-	-	-	-	-	-
-	-	-	-	35,353	22,398
4,622	7,113	-	-	-	-
-1,660	-2,800	-	-	-	-
-	-	-	-	-	200
-	-	-	-	-16,650	-5,940
-	-	-	-210,000	-	-
-	-	-	-	-	-18,700
<u>\$125,170</u>	<u>\$122,208</u>	<u>\$126,750</u>	<u>\$126,750</u>	<u>\$1,088,036</u>	<u>\$1,069,333</u>

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GORGAS MEMORIAL INSTITUTE OF
TROPICAL AND PREVENTIVE MEDICINE, INCORPORATED

ENDOWMENT FUND INVESTMENTS

JUNE 30, 1975

<u>Security</u>	<u>Number of shares</u>	<u>Cost</u>	<u>Market value</u>
Adams Express Co., par \$1	1,288	\$ 16,604	\$ 13,202
Fundamental Investors, Inc., par \$2	367	2,455	2,431
Lehman Corporation, par \$1	1,476	20,628	17,343
Loomis-Sayles Capital Devel- opment Fund, par \$1	987	12,369	10,615
Loomis-Sayles Mutual Fund, Inc., par \$1	357	4,698	4,692
Madison Fund, Inc., par \$1	404	9,504	3,939
Massachusetts Investors Growth Stock Fund, par \$1	709	3,620	7,900
Massachusetts Investors Trust, par \$1	357	8,389	9,539
State Street Investment Corp., no par	534	24,831	21,761
T. Rowe Price Growth Stock Fund, Inc., par \$1	782	10,861	8,743
Vance Sanders Investment Fund, Inc., par \$1	718	4,941	5,038
Total Investments (sch. 1)		<u>\$118,900</u>	<u>\$105,203</u>

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GORGAS MEMORIAL INSTITUTE OF
TROPICAL AND PREVENTIVE MEDICINE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1975 and 1974

A. Organization:

The Gorgas Memorial Institute of Tropical and Preventive Medicine, Incorporated (Institute), is a nonprofit organization exempt from Federal income tax. It was organized in 1921 and is primarily involved in biomedical research in tropical diseases. The research is conducted at the Institute's Gorgas Memorial Laboratory (GML) located in Panama City, Republic of Panama, and the Gorgas Memorial Institute - Middle America Research Unit (GMI-MARU) laboratory located in the Canal Zone.

The Institute assumed responsibility for the operation of the GMI-MARU laboratory under a cost-reimbursement contract with the National Institutes of Health (NIH) effective June 24, 1972. The period of the contract extended through August 31, 1975. However, using funds from other sources, the Institute plans to continue certain GMI-MARU activities under the administration of GML.

B. Accounting Policies:

1. Basis of Accounting - The Institute maintains its accounts on a fund accounting basis using three funds. Current assets, liabilities, and operating accounts are maintained in an operating fund, investments in an endowment fund, and fixed assets in a plant fund. Revenues under cost reimbursement contracts and grants are recorded as costs are incurred. The Institute includes in revenues the difference between contractual provisional overhead billing rates and estimated allowable rates as defined in the contracts. This difference, which is included in accounts receivable, was approximately \$19,000 for fiscal year 1975.
2. Plant Fund Assets - Except for equipment purchased under the GMI-MARU contract, it is the Institute's policy to charge the operating fund for the cost of assets acquired and subsequently record the acquisitions in the plant funds. Laboratory and other equipment are valued at cost, except for donated equipment which is valued at an appraised value at the date received. No donated

equipment was received in fiscal year 1973, but equipment valued at \$200 was donated to the Institute in fiscal year 1974. Depreciation is not recorded on plant fund assets.

The GMI-MARU contract provides that NIH retain ownership of the equipment acquired under the contract. Therefore, the Institute included the cost of equipment acquired by the GMI-MARU during fiscal years 1975 and 1974 under the NIH contract in operating expenditures and did not transfer these acquisitions to the plant funds. The priority for the disposal of NIH equipment purchased under this contract will be:

- a. Center for Disease Control, Department of Health, Education, and Welfare.
 - b. The U.S. Army or other Government agencies.
 - c. GMI.
3. Employment Termination and Severance Indemnity Benefits - The Institute recognizes a liability for compensation (seniority premium) that is due under the Panamanian Labor Code to all employees over a specified age with 10 or more years of continuous service upon termination of employment. The Institute estimated this liability at \$40,308 and \$23,052 as of June 30, 1975 and 1974, respectively. The portion of these benefits relating to service prior to fiscal year 1972 has been deferred and is being charged ratably to operating expenditures over a 5-year period. Including the deferred portion, seniority premium benefits totaling \$20,875 and \$3,619 were charged to operations in fiscal years 1975 and 1974, respectively.

However, regarding the estimated liability at June 30, 1974, for seniority premium benefits, the Institute recognizes that its estimate of \$40,308 may be subject to change on the basis of the requirements of the Panamanian Government under a recently enacted law. Under Panamanian Law Number 17, dated March 31, 1975, employers in the Republic of Panama pay into a Panamanian Government-controlled fund, not only the current estimated liability for earned seniority premium benefits of eligible employees but also the estimated cost for such benefits to employees not currently eligible (i.e., those employees under the age specified by the Panamanian Labor Code and with less than 10 years of continuous service). The Panamanian Government has submitted to the Institute an estimate of

\$89,582 that the Institute would have to pay into the fund for the past service cost of all employees at CML. The Institute is attempting to determine the accuracy of the Government's estimate.

The Panamanian Labor Code also provides that an indemnity be paid to all employees with service of 3 months or more if such employees are terminated without "justifiable cause" (severance indemnity). Due to the contingent nature of this severance indemnity, the Institute has adopted the policy of recording a liability only when it is incurred. At June 30, 1975, the total contingent liability for severance indemnity benefits was about \$434,000.

C. Land and building donated by Republic of Panama:

The Institute's title to the land and building donated in 1930 (appraised value \$126,750) is contingent upon its continued use for biomedical research.

The Institute's title to land donated in 1969 (appraised value \$210,000) for construction of the Gorgas Memorial Regional Medical Library reverted to the donor in April 1974, since title was contingent upon the construction of a building by April 1974 which was not built. The appraised value of this land and the related cost of preliminary architectural and engineering fees of \$18,700 for the medical library were written off against the plant fund balance during the year ended June 30, 1974.

D. Appropriation from the U.S. Government:

Section 278 of 22 U.S.C., as amended, authorizes a permanent annual appropriation to be paid to the Institute for the maintenance and operation by it of the Gorgas Memorial Laboratory. Under this appropriation, the Institute received \$707,500 and \$500,000 during the fiscal years ended June 30, 1975 and 1974, respectively.

E. Operating expenditures:

The operating expenditures shown for GMI-MARU on the statement of revenue and expenditures - operating fund (schedule 2) do not include the cost of certain administrative and research services provided by the U.S. Army Medical Research Unit--Panama and the National Institutes of Health. The cost of these services during fiscal year 1975 was estimated to aggregate \$152,000.

Since NIH retains ownership of materials and supplies acquired under the contract, their value is not reflected on the statement of assets, liabilities, and fund balances. The cost of materials and supplies acquired by GMI-MARU during the contract is included in its operating expenditures. The value of materials and supplies on hand at GMI-MARU as of June 30, 1975, was approximately \$64,000 which represents an increase of \$36,000 over the estimated value of materials and supplies on hand when GMI assumed operational responsibility for the MARU laboratory in June 1972. Disposition of these items upon termination of the NIH contract will follow the priority described for equipment items in paragraph B.2. above.

F. Pension plan:

During fiscal years 1975 and 1974, the Institute participated in the two defined contribution pension plans including a plan adopted during 1974 for employees of GMI-MARU. Coverage under each plan was limited to those employees not covered by Panamanian social security. Under the plans, the Institute made contributions based upon a specified percentage of earnings of participating employees. There are no unfunded past service costs under these plans. The Institute's contribution under the plans for the years ended June 30, 1975 and 1974, was approximately \$20,200 and \$25,300, respectively.

However, effective June 30, 1975, the plan for the employees of GMI-MARU was terminated and the entire investment in the plan plus interest was refunded to the employees. The Institute is considering other arrangements for the retirement benefits of the GMI-MARU employees.

- G. During fiscal year 1975, a net adjustment of \$93 was made to prior years' earnings to reflect (1) a decrease in income of \$129 for the difference in estimated allowable overhead rates (see note B.1 above) under various grants and final rates as allowed by the grantor and (2) a \$36 refund of a prior year's expense.